

**IMPROVING SEATTLE CENTER'S
MANAGEMENT OF
THE MONORAIL CONTRACT**

September 13, 1999

Office of City Auditor

IMPROVING SEATTLE CENTER'S MANAGEMENT OF THE MONORAIL CONTRACT

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Printed on Recycled Paper

September 13, 1999

The Honorable Paul Schell
Seattle City Councilmembers
City of Seattle
Seattle, Washington 98104-1876

Dear Mayor Schell and City Councilmembers:

Attached is our report, Improving Seattle Center's Management of the Monorail Contract. We appreciate the cooperation we have received during the course of this audit from both the Seattle Center and the contract vendor, Seattle Monorail Services. We found many of our recommendations implemented prior to the issuance of this report.

We obtained comments on the draft report from Seattle Center management, Seattle Monorail Services, and the Law Department. When appropriate, we incorporated their comments into this final report and have included their response in the body of the report.

If you have any questions regarding this report, please call me at 233-1093 or Scottie Veinot at 233-1094.

Sincerely,

Susan Cohen

Attachment

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PURPOSE

We performed this audit of the Seattle Monorail System for the City of Seattle to evaluate:

- Seattle Monorail Services' contractual compliance in two high-risk areas: maintenance and ticketing; and
 - the City's administration of its contract with Seattle Monorail Services.
-

BACKGROUND

Carrying an average of nearly 8,500 passengers a day, Seattle's Monorail System provides an important public transportation link between downtown Seattle's Westlake Center and the Seattle Center. Nearly two miles in length, it has two trains, each with four cars, and its own track. Each train ran approximately 25,000 miles last year. The Monorail System is the only public transportation system of its kind in the United States and, with an average of 14 passengers per mile of operation, one of the most efficient. The City constructed the Monorail System for the 1962 World's Fair. When the City and King County formed Metro in 1972, the City transferred all other public transportation assets and operations to Metro but retained the Monorail System, as many citizens view it as a "City Treasure". In December 1993, the City contracted with a private firm, Seattle Monorail Services (SMS), to operate the Monorail System and provide for maintenance, ticketing and janitorial services beginning in June 1994. Annually, the City and SMS each receive approximately \$500,000 per year in rider fares.

The 37-year-old trains are already 7 years beyond an estimated life of 30 years, having each traveled well over 700,000 miles. Replacements are no longer in production and would have to be specially built to Monorail specifications. Maintenance is thus particularly critical to ensuring passenger safety and continuing system operations. The limited availability of spare parts makes maintaining the aging equipment more difficult. A recent audit by the Federal Transit Administration (FTA) found the SMS maintenance staff knowledgeable and innovative in their ability to maintain the aging equipment and stated that they appeared to perform maintenance activities in a organized and competent manner. However, none of the four SMS mechanics have more than two years' experience on the Monorail System.

Due to the monorail's age, the Seattle Center has begun working with the Law Department to create a Major Maintenance Fund for replacing or rebuilding the Monorail System trains and cars. The Center expects to identify relevant capital needs and create a fully developed capital plan by the last quarter of 2000.

According to the SMS Maintenance Manager, SMS is currently helping the City select an engineering firm to conduct a structural survey of the train and car bodies, the purpose of which would be to determine whether hidden structural stress cracks, corrosion, or other problems exist that could limit the life of the trains. In the absence of such major structural problems, the SMS Maintenance Manager told us the trains could continue to run for as long as it is possible to replace or rebuild the mechanical components.

SCOPE AND METHODOLOGY

In performing this audit, we limited our review to the City's administration of the SMS contract and to two high-risk areas of contract compliance: maintenance and ticketing. Our risk assessment took into account the results of a recent federal audit of the Monorail System's compliance with federal requirements.

We reviewed the monthly reports the City's Project Manager receives from SMS, and various other maintenance and accounting reports and records. We also interviewed the City's Project Manager, Seattle Center's Accounting Manager, the SMS Maintenance Manager, the SMS Operations Manager, and the Washington State Department of General Administration Manager of Plant Operations Support, who provided special expertise in maintenance matters.

We performed this audit in accordance with generally accepted government auditing standards. We included tests of SMS maintenance and accounting records and such other auditing procedures as we considered necessary under the circumstances.

Audit Findings And Recommendations

This section of the audit report identifies the areas of improvement upon which the City program administrators should focus their efforts.

SIGNIFICANT IMPROVEMENTS ARE NEEDED IN SMS MAINTENANCE PROGRAM

SMS needs to improve its maintenance program in significant ways in the near term. In particular, SMS must:

- develop a reliability-centered maintenance system with approval of the City's Project Manager or begin complying with contractual requirements for Level E preventative maintenance;
- ensure Monorail System will be Y2K compliant;
- improve the reliability and usefulness of its computerized system of recording maintenance and repairs;
- develop an inventory of Monorail equipment;
- appropriately track and value the inventory of spare parts and supplies, and
- document that mechanics have received appropriate training for the inspections and repairs they perform.

We recognize that SMS has been moving in the right direction on several of these areas of weakness. However, SMS needs to move more swiftly from concern and conceptualization to actual implementation of corrective measures.

With City Approval, SMS Needs to Move to a Reliability-Centered Maintenance System if SMS is to Avoid the Contractual Requirement for Level E Preventative Maintenance

SMS is in technical non-compliance with the contract's maintenance plan (last updated in March 1997) that requires Level E inspection and preventative maintenance on Monorail trains every 54,000 miles.¹ Level E inspection incorporates all the preventative

¹ The Maintenance Plan calls for Levels A through D to occur every 1250, 2500, 5000, and 7500 miles respectively, either alone or as part of a higher level of inspection and periodic maintenance. Each level includes all the periodic maintenance associated with all lower levels. For example, Level D includes all the maintenance of Levels A through C. Level A inspections include a general inspection of the train exterior, interior, roof and under floors for signs of damage or deterioration, brake shoes for wear and damage, brake actuators and hoses for leaking and integrity, traction motors, fire extinguishers, operator's

maintenance work in Levels A through D and goes well beyond them into what constitutes virtually a complete overhaul.² SMS has performed no Level E inspections. However, new propulsion control packages were installed in both trains during the first half of 1998, under a federal grant. According to the SMS Maintenance Manager, overhaul of the propulsion control package constitutes the majority of the work in an E-level inspection. One train had traveled at least 91,000 miles prior to receiving the new propulsion control package without receiving an E-level inspection; the other, over 88,000.

The SMS Maintenance Manager and the City's Project Manager are both convinced that, with respect to Level E inspection and maintenance, a maintenance program centered on vehicle or part reliability would better fit the present Monorail System than the contractual requirement. SMS management says that many maintenance professionals now disagree with the preventative-maintenance approach of taking apart engines and other complex pieces of equipment that are working fine to determine whether any parts need to be replaced. They argue that the mechanic may not be able to put the engine back together in a way that works as well as it did in the first place. In addition, if something breaks during the dismantling or reassembly, the mechanic may not be able to get a replacement part for it. This is especially applicable to the aging Monorail System, where many items have no known vendor sources for replacement parts.³

Another maintenance approach, reliability-centered maintenance, analyzes all systems and parts to determine the likelihood, and the results, of failure. It focuses its preventative maintenance efforts on those systems and parts that are highly likely to fail or whose failure would result in catastrophe. At the present time, SMS has not decided whether to seek City approval of a reliability-centered maintenance system and modify the Maintenance Plan accordingly.

We recommend that the SMS work with the City's Project Manager to develop a proposal to convert to a mutually acceptable reliability-centered maintenance system and a modified Maintenance Plan reflecting that system. The proposal needs to identify the changes that will be required to convert the present maintenance program to a reliability-centered maintenance program and include a task plan for carrying out those changes. SMS should send a copy of the proposal and modified Maintenance Plan to the City Auditor.

Seattle Center Monorail Program Response:

cab, first aid kit, washers and wipers, functional check for all safety systems, adjustments of master controller and inspection of suspension.

² Besides inspecting the Monorail trains for preventative maintenance, SMS maintenance personnel also perform routine daily train inspections and inspect (a minimum of every 5,000 miles) the beams on which the tracks rest and all the components that ensure an adequate, safe and dependable electric power supply to the rails.

³ Because the Monorail trains are essentially modified New York City subway trains, the maintenance manager hopes to learn from New York City Transit about additional sources of spare parts and the methodology it uses for maintaining the trains.

The existing contract between Seattle Center and Seattle Monorail Services was negotiated as an initial attempt to manage a public transit system through a private contractor. During these negotiations maintenance of the Monorail trains was a primary topic of discussion. Under the previous management structure, the trains were serviced by METRO mechanics under a maintenance agreement with the City. Few maintenance records were transferred from METRO to the City. Hence, no reliable maintenance history exists from this period. To help address this problem, Seattle Center engaged outside consultants to establish the maintenance requirements described in the current contract.

SMS and Seattle Center concur with the Auditor's finding. Considering five years experience of joint operation, the two entities have begun a reevaluation of the current maintenance program. This reevaluation is designed to develop a mutually acceptable reliability based maintenance plan. We will provide the plan to the City Auditor by October 15, 1999. Conversion to this new plan is scheduled to begin on January 2, 2000.

SMS Needs to Ensure Monorail System is Y2K Compliant

At present SMS can not ensure that the change of year date from 1999 to 2000 will have no effect on Monorail System operations. The SMS Maintenance Manager has compiled a list of date-sensitive parts that may need replacement, but much remains to do to test these parts and replace those that will not function appropriately after January 1, 2000.

We recommend that SMS, as quickly as possible, develop an Action Plan for making the Monorail System Y2K compliant, and provide a copy to the City's Project Manager and the City Auditor. The planned completion dates for implementing the action items in this Plan should be not later than November 30, 1999.

Seattle Center Monorail Program Response:

As part of the City's overall Y2K Preparedness Effort, Seattle Center has undertaken a detailed review of business critical systems for Y2K compliance. During this review, the Monorail was categorized as a non-critical system. Public safety will need to be assured in the event of a service disruption. Because the Monorail was constructed prior to the advent of computer chips, there are no embedded systems on the trains which could fail. In addition, there are redundant safety features built into the system to allow for safe shut-down in the event of a power interruption.

SMS is currently conducting a Y2K audit of all their management and operating systems. This audit is 80% complete as of this writing. SMS will submit an Action Plan to address needed remediation immediately following the completion of the audit. The contractor has a stated goal of reaching Y2K compliance by November 1, 1999. In addition SMS will prepare a contingency plan in association with Seattle Center. That plan will address the potential failure of external systems (i.e., power) and provide direction to Monorail

operators in the event that the system needs to be shutdown.

Maintenance System Records Have Serious Internal Control Weaknesses

The present computer systems for controlling and documenting maintenance and repairs are inadequate, with weak internal controls leading to data of questionable reliability. Serious weaknesses exist both in the maintenance records that SMS keeps in ACCESS files on the Monorail trains and those that it keeps in EXCEL files on spare parts inventory and schedules of future preventative maintenance. Because SMS uses the ACCESS files to provide the City's Project Manager with monthly maintenance reports, the ACCESS files are particularly critical from the standpoint of contract management. Specific weaknesses include:

- Too many people (for example, all the mechanics) have access to both the ACCESS and EXCEL data.
- The system provides no password protection for either ACCESS or EXCEL data to keep unauthorized persons from entering or changing data.
- SMS has no standardized procedures for storing periodic backup copies of either the ACCESS or the EXCEL data off site to protect against loss.
- Although mechanics enter data on repairs and maintenance from worksheets they prepare after completing the work, SMS has no documentation showing supervisory or staff verification of these inputs. The SMS Maintenance Manager told us he performs spot checks to ensure that mechanics have actually performed the maintenance, but SMS has no documentation reflecting that such monitoring has taken place and showing how often. Data integrity is, therefore, open to question.
- Mechanics are not consistent in the manner they enter both ACCESS and EXCEL data or the time they enter it, and these inconsistencies may affect data reliability.
- The system does not meet all contract specifications. For example, the user must manually input the next scheduled maintenance rather than relying on the system to compute and enter it.⁴
- The system's versions of ACCESS and EXCEL are not Y2K compliant. As a result, the new year may bring various system problems related to the change in the year date.
- The system is not integrated with the parts inventory system. That is, when the mechanic uses a spare part for a repair, the computer system does not automatically reduce the inventory for that part.

We recommend that SMS:

⁴ Contract Exhibit H requires that the computerized maintenance management system "flag for the next scheduled maintenance."

- with the help of a consultant, install the Datastream software that has already been purchased to replace the present computerized tracking system and ensure it meets the needs of any reliability-centered system SMS develops;
- to the extent feasible, convert present data to Datastream format; and
- improve segregation of duties and data inputting for the new system, possibly by hiring an intern or part-time employee for data entry.

Seattle Center Monorail Program Response:

Seattle Center and SMS recognize the need to improve controls in the current system for maintaining maintenance records. To address this need, SMS has already purchased a new Maintenance Management Program (Datastream) which will be installed by October 1, 1999. Testing of the new system will occur between October 1 and December 31, 1999.

Datastream software is specifically designed to help document and control the maintenance cycle for complicated mechanical systems such as the Monorail. The new system will address many of the concerns raised in the Auditor's review including:

- integration with the inventory system
- standardized data entry protocols to ensure that data records are consistent
- password protection to prevent unauthorized data manipulation
- computer generated maintenance schedules
- Y2K compliance

As part of the training in use of the new system, all SMS maintenance personnel will be instructed on proper documentation procedures and maintenance protocols. SMS will also work this fall to clean up the existing data so that it will be available for historical information.

Neither SMS nor the City Has An Inventory of Monorail System Equipment

SMS has no listing of the Monorail System equipment for which it is responsible, nor any valuation of that equipment. The contract⁵ called for the City to turn over Monorail equipment to SMS, along with a list specifying the equipment it turned over. The contract requires SMS to return the equipment to the City at the end of contract operations in the same condition, less wear and tear and casualty. Neither SMS nor the City has a copy of the equipment listing. At present no accurate inventory of Monorail equipment exists. Furthermore, SMS has not entered the value of the equipment on its balance sheet or depreciated the equipment.

We recommend that SMS develop a listing of all Monorail equipment, value it appropriately (at the market rate in the absence of cost information), include its value on

⁵ Section XIV

the SMS balance sheet, and begin depreciating the equipment and thereby reducing the long-term liability.

Seattle Center Monorail Program Response:

SMS and Seattle Center recognize the need to develop and value a list of all Monorail equipment. As part of our upcoming contract negotiations we will undertake to create the list and identify a process for updating this inventory each year. These discussions will also attempt to resolve the issue of existing spare parts inventory which is no longer of use to the system.

SMS Is Not Appropriately Accounting for Its Inventory of Spare Parts and Supplies

In accounting for spare parts and supplies, SMS has not complied with the contractual requirement to maintain a record of its inventory according to generally accepted accounting principles.⁶ SMS never placed its initial inventory of spare parts and supplies on its books or adjusted that inventory at year-end to reflect a bona-fide inventory count.

At the start of operations, the City transferred to SMS, without charge, its inventory of spare parts and supplies for Monorail System operations. SMS and the City valued this initial inventory at approximately \$309,000.⁷ The contract requires that the final inventory of spare parts and supplies at the end of SMS operations match this value (with financial adjustments for exceeding or falling short). In addition, generally accepted accounting practices call for SMS to adjust its annual expenses for spare parts and supplies to reflect changes in the inventory value as of the end of each operating year.

SMS, however, has never placed this initial inventory of spare parts and supplies on its books (with the matching liability to the City). SMS also has never adjusted its expenses for spare parts and supplies to reflect changes in inventory value because each year it has declared year-end inventory to exactly match the inventory value at the start of operations. SMS personnel established this year-end inventory value by walking through the parts location and looking for changes in the amount of equipment. Because this method of inventory valuation is not a generally accepted method, it is not in compliance with the contract.

Because SMS has never adjusted the initial inventory valuation, it has not had to establish a generally accepted accounting method for tracking the moving of individual spare parts and supplies out of inventory and into operational use. Selecting a tracking method is essential to valuing the items remaining in inventory. Traditional practices include FIFO (First In, First Out) and LIFO (Last In, First Out).

⁶ Subsection V. PAYMENTS TO THE CITY, F. Books and Records,

⁷ Subsection XI MAINTENANCE REQUIREMENTS AND PLAN, C. Spare Parts and Supplies

We recommend that:

- SMS and the City's Project Manager should agree upon an appropriate method of tracking the flow of spare parts and supplies from inventory into operational use and incorporate this method into the new Datastream software for recording maintenance and parts usage.
- After agreeing with the City's Project Manager on an inventory method, SMS should create a plan that is in accordance with generally accepted accounting principles. This plan should provide reasonable assurance that the inventory count includes all inventory items and excludes non-inventory items, that the inventory count properly observes the year-end cut off, that items receive correct valuation, and that the process makes appropriate adjustments for obsolete, damaged or slow moving items.
- SMS should perform an appropriate inventory of spare parts and supplies at the end of each operating year in accordance with its new plan.
- To provide the City with assurance that SMS is appropriately following the inventory plan, SMS should retain an inventory specialist or an outside CPA to observe and certify this inventory.
- SMS should include the year-end inventory of spare parts and supplies on its balance sheet, and record the amount of the initial inventory value at the start of operations as a liability.⁸
- SMS should adjust its annual expense figure for spare parts and supplies to reflect the difference in value between initial and current inventory. In the future, SMS should similarly adjust its expense figure to reflect the difference between the inventory value at the start and end of the operating year.

Seattle Center Monorail Program Response:

The existing relationship between Seattle Center and Seattle Monorail Services was the first attempt to manage the Monorail through a private contractor. Negotiations to establish this relationship focused on what were the immediate key issues for successful operations. These issues included delineation of a new management structure, service levels, reporting provisions, liability issues, revenue monitoring and attendant fiscal controls, profit sharing and maintenance requirements. The disposition of existing parts inventories were given a lower priority during the negotiations.

Now that experience has demonstrated that the basic elements of the partnership are functioning smoothly, the two parties are prepared to refocus their attention on the next level of issues. The Seattle Center has noted the Auditor's concerns and will begin discussions with SMS on more appropriate methods to track spare parts inventories and to maintain tighter controls over that inventory. We will also recommend that SMS begin to show these inventories as part of their balance sheet and the City adjust its books to show a matching receivable.

⁸ The City's accounting records should show a matching receivable.

SMS Needs to Document that Mechanics Have Received Appropriate Training for Each Type of Inspection and Maintenance They Perform

SMS does not document that its mechanics have received appropriate training to ensure they have sufficient knowledge and skills to perform those inspections and repairs appropriately. The SMS Maintenance Manager told us he locates the necessary on-the-job training (OJT) as well as training classes and ensures the mechanics can perform these inspections and repairs to his satisfaction. However, the lack of documentation of OJT and classes taken, might be problematic for SMS and the City in the event of an inspection or repair failure that leads to catastrophic results.

We recommend that SMS document all training received by each mechanic to ensure that no mechanic is asked to perform work for which he or she has not received appropriate training.

Seattle Center Monorail Program Response:

SMS is in the process of documenting their existing training plan. This process is focused, in part, on the training received by mechanics. While we are confident that past maintenance activities have been handled appropriately, the new documentation will ensure that maintenance procedures are performed by qualified personnel. Records will be included in employee files indicating the level of training they have received and the procedures for which they are qualified.

SMS NEEDS TO IMPROVE TICKETING PROGRAM TO ENSURE IT COLLECTS ALL APPROPRIATE FARES

Weaknesses in SMS ticketing are allowing riders to ride the Monorail without paying the fare. For example, when on-train cashiers pack up their tickets before the train doors close, the cashier or the driver may wave individuals on board even though they have not paid the fare; we personally observed several instances of this during our audit. Because cashiers rarely remove the bottom portion of round trip tickets (preventing their reuse), individuals can sell their used round trip tickets to persons waiting in line to buy tickets; we observed one instance of this during our audit. We also observed people running by the Cashier's Cage onto the train without paying. We understand that SMS has focused primarily on voluntary compliance with fares and on maintaining good customer relations. Other public transportation systems have similar focus, however, and yet are much more assertive in regard to customer fares. By not collecting all the fares that are due, both SMS' and the City's revenues are reduced. In addition, cash handling procedures, being highly visible, have a significant impact on how citizens view City operations in general. Poor cash handling, probably more than any other factor, leads citizens to question whether the City is properly safeguarding the money it receives and prompts them to call

the Office of City Auditor to voice concerns. Honest citizens may also resent having to pay for a service that others who are not so honest are getting for free.

The SMS Operations Manager told us SMS is in the process of implementing new ticketing controls that include a Video system and the turnstile type of ticket system employed by the New York City subway system.

We recommend that SMS management make appropriate ticketing a high priority for SMS employees and continue to pursue improvements in systemic controls over ticketing.

Seattle Center Monorail Program Response:

Any transit system based on voluntary compliance must strike a balance between good customer relations and revenue collection. In our opinion the Seattle Center Monorail strikes an appropriate balance and thereby achieves a high degree of rider compliance. Overall we believe that a relatively low proportion of riders manipulate the system to avoid paying the advertised fares. Nevertheless, Seattle Center and SMS recognize the need to be vigilant in the effort to ensure that all appropriate fares are collected. Toward this end, the Monorail program will take the following steps to improve revenue safeguards and help increase collections:

- Improved training for Monorail cashiers. The large number of seasonal employees involved with ticket operations requires ongoing training to instill and reinforce strong cash-handling procedures. SMS has recently hired a new General Manager who has instituted a revised training program focused on increased cash handling controls and ticketing procedures to reduce the availability of unused tickets.
- Installation of a Video-monitoring system. This system will help to discourage theft, provide a double-check on cash-handling procedures and reduce the opportunity for riders to board without paying fares.
- Reexamination of pedestrian patterns on the Monorail platform to determine if changes to the set-up might improve revenue control and enhance and ticketing operations.

THE CITY CAN IMPROVE ITS ADMINISTRATION OF THE SMS CONTRACT

The City can improve its administration of the SMS contract by:

- obtaining monthly maintenance reports from SMS that include comparative data from previous months and years;
- removing the detailed Maintenance Plan from the contract and providing for submission of an annual plan for City approval;
- revising/removing many contract provisions or providing additional specificity; and
- requiring CPA review of financial statements and internal controls and performing an audit of SMS maintenance.

Monthly Maintenance Reports Do Not Provide the City's Project Manager with Sufficient Information for Analyzing Trends

Although the monthly maintenance reports that SMS sends to the City's Project Manager contain a high level of detailed information on the current month,⁹ they do not provide comparative information regarding previous months and years. As a result, the Project Manager cannot easily analyze maintenance operations for trends, particularly those indicating deterioration in system equipment or in maintenance efforts, or evaluate the progress the Monorail System is making in meeting its objectives.¹⁰

We recommend that the City's Project Manager ask SMS to include comparative data from past months and years in the monthly maintenance reports. This additional data would allow both SMS management and the City's Project Manager to evaluate changes over time: month to month and year to year. A less desirable alternative would be for the City's Project Manager to transfer the report data each month to an EXCEL spreadsheet for purposes of monitoring trends in Monorail System operations and maintenance.

Seattle Center Monorail Program Response:

As noted above, SMS is in the process of installing a new Maintenance Management Software package (Datastream). This new package includes the ability to produce a variety of pre-programmed reports designed to generate comparative statistical data for

⁹ This information includes the percent of scheduled preventive maintenance performed on time, staff hours devoted to maintenance, number of "breakdowns" causing service failure, number of "nuisance" failures of equipment, time required to correct equipment problems, and time required to respond to critical equipment problems, as well as details on any unscheduled or emergency maintenance, major maintenance, and system modifications and improvements.

¹⁰ Besides reviewing maintenance reports, the City's Project Manager also monitors SMS maintenance through periodic site visits and regular attendance at SMS board meetings.

tracking maintenance trends. The package also has the potential to create customized reports should the pre-programmed reports be insufficient. This system will be installed during the fourth quarter of 1999. Once the software is installed the Seattle Center will review the existing reports to determine those that meet the Center's needs for contract administration.

Removing the Maintenance Plan from the Contract Would Permit Greater Flexibility in Maintenance Operations

Removing the maintenance plan from the contract would make it easier for SMS and the City to respond to changes in technology and maintenance practices. Over 20 pages long, the plan specifies many detailed, daily, weekly, monthly and annual tasks. These tasks may become obsolete over time because of new technology and a shift from a preventative maintenance system to a reliability-centered system. As long as the maintenance plan is part of the contract, SMS would either have to comply by performing the obsolete tasks or seek a formal change in the contract. An alternative is to remove the maintenance plan and all its specific requirements from the contract and insert a new provision in the contract requiring SMS to submit a detailed annual maintenance plan through the City's Project Manager to the Director of the Seattle Center for approval.

We recommend that the City modify the current contract to remove the maintenance plan and to require SMS to submit a detailed maintenance plan each year through the City's Project Manager to the Director of the Seattle Center for approval.

Seattle Center Monorail Program Response:

Seattle Center agrees with the Auditor's recommendation to remove the maintenance plan portion from the existing contract. Discussions have already been started to implement this recommendation and begin work on the creation of an annual maintenance plan. These changes will be memorialized as an amendment to the existing contract. Our goal is to have the amended contract presented to Council by the first quarter of 2000.

Either the City Needs to Revise/Remove Many Contract Provisions, or the Director of Seattle Center Needs to Provide a Large Amount of Specific Guidance to SMS

Although the current contract requires the Director of the Seattle Center to provide SMS specific guidance on a very large number of contract provisions, the City's Project Manager told us no documentation exists to show that the Director has ever provided such guidance. For example, the contract requires the Director to specify the minimum frequency for SMS to dump or remove receptacles of waste products from Seattle Center, but no document provides this guidance to SMS.¹¹

¹¹ Subsection XVIII. COMPLIANCE WITH LAW, H. Biodegradable Products/Recycling of Waste

We recommend that the City's Project Manager review all contract provisions calling for specific guidance from the Director of Seattle Center and either get the guidance in writing or revise/remove the contract provision.

Seattle Center Monorail Program Response:

Seattle Center will take advantage of our upcoming negotiations to review all contract provisions calling for specific guidance from the Seattle Center Director. A list will be compiled of all such instances for review. Based upon discussions with SMS, these provisions will be removed where appropriate. For the remaining items, we will establish procedures for documentation of the Director's guidance. These discussions will take place as part of upcoming contract negotiations with SMS.

Need for Auditing SMS Financial Statements, Internal Controls and Maintenance Operations

External auditing of SMS financial statements, internal controls, and maintenance operations is non-existent. The current contract does not require that SMS receive a periodic external (CPA) audit, but only undergo a review of its financial statements. As a result, various internal control weaknesses we would expect the audit to detect have not received appropriate attention. These include inadequacies such as inconsistencies in maintenance data (p.6) performing an inventory of spare parts (p.8), and inappropriate ticketing procedures (p.10).

In addition, the City's Project Manager has never performed an audit of SMS maintenance operations. The City has developed a form to conduct such an audit, and the SMS Maintenance Manager told us that he has used it to conduct a self-assessment of SMS maintenance operations. Conducting an independent audit would allow the City's Project Manager to document needed improvements and thus help prepare the framework for shifting to reliability-centered maintenance and converting to the Datastream computer system for maintaining maintenance and inventory data.

We recommend that in revising the contract, the City maintain its own right to audit SMS and add a clause that requires a CPA audit of SMS every 3 years. The CPA audit should include an evaluation of SMS internal controls, and copies of the audit report and management letter should go to SMS management and the City's Project Manager. We further recommend that the City's Project Manager conduct a thorough audit of SMS maintenance operations.

Seattle Center Monorail Program Response:

Materials

Seattle Center agrees with the Auditor's recommendations. During contract negotiations we will amend the contract to include the right to an outside audit every three years. Additionally, the Center will perform an audit of maintenance operations in 2001.

PAUL SCHELL
Mayor

VIRGINIA ANDERSON
Director

HOME TO...

THE ARTS

Intiman Theatre
KCTS/Channel 9
Northwest Craft Center
Pacific Northwest Ballet
Pottery Northwest
Seattle Arts Commission
Seattle Center Arts & Science Academy
Seattle Children's Theatre
Seattle Opera
Seattle Repertory Theatre

SPORTS TEAMS

Seattle Reign
Seattle SuperSonics
Seattle Thunderbirds

FESTIVALS/MAJOR PROGRAMS

Experience Music Project
Fun Forest Amusement Park
International Fountain
Pacific Science Center
Seattle Center House
Seattle Center Monorail
Space Needle
The Children's Museum

MAJOR FESTIVALS AND EVENTS

artsEdge
Bite of Seattle
Bumbershoot
Festál Cultural Festivals
KING 5 Winterfest
Northwest Folklife Festival
Seattle International Children's Festival
Whirligig

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August 31, 1999

Susan Cohen
City Auditor
Municipal Building
600 Fourth Avenue
Room 1040
Seattle, Wa 98104

RE: Improving Seattle Center's Management of the Monorail Contract

Dear Ms. Cohen,

Thank you for the opportunity to comment on the audit report. We appreciate your office's support in going through this process.

When Seattle Center engaged in a contract with Seattle Monorail Services it was the first venture of this type. The authors of this contract strove to prepare for this new relationship. Your audit has confirmed the need for us to revisit and simplify this contract now that it has been extended and follow up on your helpful suggestions.

We are looking forward to our continued successful partnership with Seattle Monorail Services. Your assistance in helping us to refine this relationship is much appreciated.

Sincerely,

*signature removed for
security purposes*

Robert Nellams
Deputy Director

Office of City Auditor Report Evaluation Form

FAX...WRITE...CALL...DROP BY... HELP US SERVE THE CITY BETTER

Our mission at the Office of City Auditor is to help assist the City in achieving honest, efficient management and full accountability throughout the City government. We service the public interest by providing the Mayor, the City Council and City managers with accurate information, unbiased analysis, and objective recommendations on how best to use public resources in support of the well-being of the citizens of Seattle.

Your feedback helps us do a better job. If you could please take a few minutes to fill out the following information for us, it will help us assess and improve our work.

* * * * *

Report: Improving Seattle Center's Management of the Monorail Contract

Please rate the following elements of this report by checking the appropriate box:

	Too Little	Just Right	Too Much
Background Information			
Details			
Length of Report			
Clarity of Writing			
Potential Impact			

Suggestions for our report format: _____

Suggestions for future studies: _____

Other comments, thoughts, ideas: _____

Name (Optional): _____

Thanks for taking the time to help us.

Fax: 684-0900

Mail: Office of City Auditor, 1100 Municipal Building, Seattle, WA 98104-1876

Call: Susan Cohen, City Auditor, 233-3801

E-mail: auditor@ci.seattle.wa.us

Drop by and visit: 10th Floor of the Municipal Building

<http://www.pan.ci.seattle.wa.us/seattle/audit/>